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C O N F I D E N T I A L SECTION 01 OF 02 BAKU 001205

SIPDIS

E.O. 12958: DECL: 12/29/2018

TAGS: PGOV PREL AJ ENRG TK

SUBJECT: AZERBAIJAN: READOUT OF PRESIDENT ALIYEV NOVEMBER 25 ITALY TRIP

Classified By: A/DCM Alan E. Eyre, reasons 2.4 (b,d)

¶1. (C) SUMMARY: According to the Italian Ambassador to Azerbaijan, during President Aliyev's November 25 visit to Italy he expressed a clear preference for the Turkey-Greece-Italy pipeline project over the Nabucco one, citing it as achievable in the short-term. It is unclear to Embassy how accurate was the read-out received from the Italian Ambassador in this regard. END SUMMARY.

¶2. (C) On December 5 Ambassador Derse met with the Italian Ambassador to Azerbaijan Gian Luigi Mascia, who gave her a briefing on President Aliyev's November 25 visit to Italy. Also present in the meeting was the Greek Ambassador Iaonnis Metaxas (present because of joint Italy-Greece energy concerns), and Embassy EnergyOff (notetaker).

¶3. (C) Mascia said that President Aliyev went to Italy at the invitation of Italian President Napolitano and PM Berlusconi, to discuss bilateral relations and energy issues. Aliyev had three meetings while in Italy: with President Napolitano; PM Berlusconi; and Edison CEO Umberto Quadrino. In the meeting with Napolitano, in which GOAJ Energy Minister Natiq Aliyev, FM Mammadyarov and Mascia himself also participated, Mascia said that President Aliyev was convinced that the TGI pipeline project had the best chances to be completed in the short-term, but that it faced two problems, the first being Turkish transit, where the GOAJ had "no leverage." Napolitano told Aliyev that he was quite close to PM Erdogan, and would talk to him, which pleased Aliyev greatly.

¶4. (C) Aliyev said the second problem was the "lack of a European voice" in the Southern Corridor project. Aliyev was disappointed with the EC, as he had expected more help in promoting the Southern Corridor. He said there seemed to be a 'disconnect' between Italy and Brussels, and that the EU presence in Azerbaijan was minimal and ineffective. Napolitano said that although Brussels and the EC were supposedly to be supporting TGI and Nabucco equally, in reality it was only promoting Nabucco. Napolitano said Italy supports Nabucco, but it is not practical in the short-term. President Aliyev agreed, saying a project of this scope was not viable in the current global financial situation, and that the more modest TGI project should be done first. Aliyev said Azerbaijan was ready to commit to TGI once problems with Turkish transit were solved. Mascia said that both Foreign Minister Mammadyarov and Energy Minister Aliyev seemed 'surprised' at how clearly President Aliyev expressed his support for TGI.

¶5. (C) Mascia said Aliyev told his Italian interlocutors that the GOAJ had to proceed quietly in advancing the Southern Corridor, so as not to unduly upset Russia. Russia's

aggression in Georgia had 'changed the regional mood, and now he had to proceed more cautiously.

¶ 6. (C) Concerning President Aliyev's November 29-30 visit to Turkmenistan, Mascia told the Ambassador that he had heard that "SOCAR or some other entity" would build the trans-Caspian infrastructure necessary to bring GOTX gas west. As to where the volumes would go, Mascia said it was his understanding that the GOT wanted 8 bcm/a from Shah Deniz Phase Two (SD2), with Azerbaijan willing to supply only 4 bcm/a. Mascia said that with at least 4 bcm/a from Azerbaijan and 4 bcm/a from Turkmenistan for TGI, which he said could be delivered through an inter-connector, there would be enough to sanction TGI.

¶ 7. (C) Speaking about the SD1 price negotiations, Mascia said it was his understanding that Botas was still offering approximately USD 120 per mcm, at a time when Gazprom gas to Europe was approximately USD 280, depending on the market. Mascia said that President Aliyev told his Italian interlocutors that if Turkey were not willing to pay a fair price for SD1 and SD2 gas, he would "leave it in the ground."

¶ 8. (C) When asked about next steps, Mascia told Ambassador Derse that Prime Minister Berlisconi would visit Azerbaijan, ideally in 2009 to sign a TGI agreement.

¶ 9. (C) COMMENT: Embassy has not heard of such a strong preference for TGI from President Aliyev directly, and thinks it possible that the Italian Ambassador's enthusiasm for the

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project might have rendered him less than a fully impartial reporter in this regard. SOCAR's position is that no determination among the various projects bidding for Azerbaijani gas until and unless Turkey provides an acceptable transit regime with which SOCAR can calculate relative netbacks. Embassy will probe President Aliyev on his current pipeline preferences when the opportunity presents itself. END COMMENT.

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